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# GRASSROOTS

## CABLE SYSTEMS

Grassroots Cable Systems Inc. is a small independent multiple system cable television service provider. We presently serve 34 communities via 21 cable systems located in rural areas of Maine and New Hampshire. Our 669.4 miles of cable plant pass 10,882 homes for a density of 16.3 homes per plant mile. We have 6399 subscribers which is a 58.8% buy rate.

SEP 07 1993

FCC - MAIL ROOM

SEP 07 1993

September 2, 1993

Office of the Secretary  
Federal Communications Commission  
1919 M. Street, N.W.  
Washington, D.C. 20554

FCC MAIL BRANCH

Re: Small system operator comments on MM Docket No. 93-215

Dear Commissioners:

Grassroots Cable Systems Inc. is a small independent multiple system cable television service provider. We presently serve 34 communities via 21 cable systems located in rural areas of Maine and New Hampshire. Our 669.4 miles of cable plant pass 10,882 homes for a density of 16.3 homes per plant mile. We have 6399 subscribers which is a 58.8% buy rate.

Grassroots has been struggling to work within the reality of the 1992 Cable Act and it's impact on our survival as a business entity. Presently only one of our systems, which serves four towns, exceeds the FCC's present small system (1000 subscribers) exemption for rate regulation at this time.

The Benchmark rates were established without regard to rural system density, higher rural operating costs to service widely separated rural systems, higher programming costs charged to small independents nor other "rural" system considerations. I have just completed an initial reading of the referenced Docket and see more of the same faulty rural system foundation work being proposed for cost-of-service regulations.

We are not an S&P 400 company nor do we have a traditional regulated industry capital structure of 50% debt/50% equity. I doubt that many existing cable companies do whether urban, suburban or rural. I am submitting the attached declaration and Exhibits 1 & 2 which give an overall synopsis of Grassroots for your edification of what a "rural" independent operator is really about. The systems we operate are not addressable and have an average of 32 miles of cable plant passing 518 homes for a density of 16 homes per mile with 305 subscribers who have 29 channel service (i.e., 25 basic and 4 pays) available.

The Felders, myself and my wife, have over 27 years in cable television. We have invested our lives and our personal assets in the effort to bring cable TV service to rural areas. The last three years have been extremely difficult financially for us with first HLT, banking industry fallout and than the uncertainty of what the pending FCC rules would mean in our marketplace.

That uncertainty was replaced with known disaster with the publishing of the FCC Benchmark rates. A disaster which has been stayed temporarily in 20 of our 21 operating systems with 1000

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subscriber ruling. We have no choice in this one system, at this time but to opt for a cost-of-service showing so that we at least have a fighting chance to be able to honor our franchise as well as financial commitments.

We don't feel that 1,000 subscribers should be a hard and fast threshold number. Rather the system density, revenue stream and operator profitability should all be weighed to establish a true and realistic threshold number. A number that will allow independent rural operators to continue to service subscribers and attract additional expansion capital. As it stands right now we have zero incentive to combine systems to increase service options or reduce operating costs as we would be subject to rate regulation, rate regulation that doesn't recognize any of the rural cost factors that major MSO's are not faced with. As a result, subscribers that live in areas that are not attractive to big financial players but are still entitled to good television and communications will not be served.. Areas where the service need is very real!

Our relief request is simple don't force us as rural operators into an urban mold. We don't have the financial where-with-all to operate in a tightly regulated environment. We don't have the staff to cope with additional regulatory paperwork. Allow us the same latitude that rural telephony, rural electrical and urban cable operators have had. Introduce regulation gradually for our rural markets so as we grow from Mom and Pop operators or are assimilated into larger service companies the regulations do not kill the business.

I have provided you with minimal detailed information with this document. But we are more than willing to provide you with any statistics, financial numbers or other pertinent information that is within our means that you feel would help you in your deliberations as regards the "Rules" that we as independent rural Mom & Pop operators will live or die under.

Sincerely,



W. Robert Felder  
President

P.S. It wouldn't hurt to also review the negative rate impact that **cash** retransmission fees will have on rural subscribers who have not been able to historically enjoy full broadcast service (i.e. ABC, CBS, NBC, Fox and PBS) prior to cable TV coming to town. Yes, **cash** payments will be the norm for small independent rural operators as we don't have the "trading" material options of our large MSO brethren.

cc: SCBA  
NECTA  
Attached congressional mailing list

encl: Declaration plus Exhibits 1 and 2

### **Declaration of W. Robert Felder**

1. I, W. Robert Felder, am the President of Grassroots Cable Systems, Inc. ("Grassroots"). Grassroots owns and operates twenty-one cable television systems located in thirty-four rural communities throughout Maine and New Hampshire. As of July 31, 1993, Grassroots provides cable service to approximately 6,399 effective subscribers. At present only one of Grassroots' systems serves over 1,000 subscribers.

2. The typical Grassroots system has twenty-nine active channels, with eight basic, seventeen tier and four premium channels. Many of the communities served by Grassroots have limited access (i.e., 1-3 channels) to television reception. Many of Grassroots' service areas are contiguous to larger towns served by other cable companies, which have not extended service into the rural areas because it was not economically feasible for them to do so, mostly due to the low density in these areas. For example, Grassroots' Wakefield, New Hampshire system, which serves 1,332 effective subscribers, has a density of only 17.6 homes per mile for the 115.4 of plant miles built.

3. As Grassroots' President, I am responsible for overall company operations, including its ability to service existing debt and attract the capital necessary to continue and expand service. I also am familiar with the provisions of Grassroots' franchise agreements with local authorities and credit agreements with lenders.

4. At my direction, Grassroots has analyzed how the Federal Communication Commission's ("Commission") proposed "benchmark"

rates will affect its ability to continue to provide current levels of cable service to subscribers as required under its franchise agreement. In particular, Grassroots has calculated the rates it is permitted to charge its cable customers under the benchmark standards. We have also projected the anticipated amount of revenues that would be generated from the benchmark rates, assuming no change in the number of customers or selection of services.

5. Grassroots was conceived exclusively to serve rural markets that are unserved by other cable operators. Phase I included a \$12.5 capital investment to serve the thirty-four rural communities presently served. Phase II was to require a \$4 to \$5 million investment to expand rural service in Maine and New Hampshire. Phase III was to offer cable service to rural communities in Vermont, and was projected to cost \$16 million. The implementation of Phases II and III is unlikely to occur if the Order goes into effect in its present form, because of difficulties in attracting capital investment or other financing (as more particularly described below).

6. At the present time, even without any rate reductions under the Commission's proposed regulations, Grassroots is not earning a net profit on its cable service operations.

7. The current rates of Grassroots' systems exceed those permissible under the benchmark rate structure prescribed by the Commission. According to our present calculations, if the benchmark method were implemented (and assuming no changes in customers or selection of services), Grassroots' Wakefield, New

Hampshire system would be required to reduce rates from \$24.10 to \$21.55 per month per subscriber, resulting in an annual revenue loss of approximately \$40,759.

8. Such a rate reduction would have an immediate, adverse and irreparable impact on Grassroots' operations. The projected revenues we would receive under the benchmark rates are insufficient to meet Grassroots' expenses, including debt service. As a result, if forced to adopt benchmark rates, Grassroots would be required to seek the protection of bankruptcy court in order to avoid foreclosure on its assets and continue in business.

9. In particular, the projected cash flow reduction under benchmark rates would make it impossible for Grassroots to service its existing debt. Grassroots was in the process of attempting to restructure its debt when the Commission's Order issued. The projected cash flow under benchmark rates would be insufficient to service Grassroots' debt even under the proposed restructuring agreements (even assuming those agreements ultimately are entered). The projected revenue reduction caused by benchmark rates would place Grassroots in default of existing loan covenants (as well as the proposed restructured loan covenants), including covenants on debt coverage, interest coverage and cash flow multiples.

10. Upon default, Grassroots' senior and subordinated lenders have the right to call the loan and to foreclose on the loan security, which consists of virtually all company assets. Default on Grassroots' loan would also trigger defaults on cross-collateralized loans with local lenders on two other businesses,

as well as attachment of personal assets pledged as additional security for all loans.

11. In addition, neither the benchmark nor the cost of service method (in its present, undefined form) will permit Grassroots to attract additional capital investment or financing. If forced to adopt benchmark rates, Grassroots would have insufficient cash flow to secure the financing required to implement Phases II and III of its plans to expand and upgrade service to rural areas. Even with the limited information presently available on the expected rate of return and other factors under any cost of service approach, Grassroots is unable to provide assurance to lenders and other capital sources that it will have sufficient cash flow to service existing or proposed additional debt. In fact, since the Commission's Order issued, Grassroots has been unable even to secure financing for a new vehicle loan to replace its six vehicle service fleet--even though it has had no credit problems in the past.

12. Adoption of benchmark rates also would impair Grassroots' ability to comply with its franchise obligations. Agreements with local franchise authorities require Grassroots to expand service as density and/or service buy rate parameters are reached, as well as to rebuild physical plant as required in the normal course of business. As mentioned, if forced to adopt benchmark rates, Grassroots' projected cash flow would be insufficient to enable it to obtain the financing required to make those improvements. If

the required improvements are not made, Grassroots may be in default of franchise agreements, and risks the revocation or nonrenewal of our franchises.

13. Because the Commission has not yet released any regulations for "cost of service" determinations, Grassroots cannot determine what costs may be recovered or what rate of return it can expect to obtain. If cost of service regulations did not permit the recovery of debt service, Grassroots would not be able to continue operations under that approach. Thus, at the present time cost of service is not a viable option, because the resulting rates might result in even greater losses than those projected under benchmark rates.

14. Any "cost of service" showing also will entail substantial time and expense which may not be recoverable under any regulations the Commission ultimately might adopt. One of Grassroots' principals has experience with municipal cost of service showings. Based on that experience, we expect that Grassroots would be required to hire rate experts and attorneys to pursue cost of service showings for each of its systems, at a substantial cost.

I declare under penalty of perjury that the foregoing is true and correct.

Dated 12<sup>th</sup> day of August, 1993, in Exeter, New Hampshire.

  
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W. Robert Felder

## SCBA Member Survey

All Information to be Provided as Totals for all Systems

GENERAL INFORMATION	
Operator's name:	Grassroots Cable Systems, Inc.
Total number of systems:	21
Total number of subscribers (for all systems):	6399 (7/31/93)
Legal entity type (i.e., Corporation, Partnership, etc.):	S-Corp

DEBT INFORMATION (CURRENT)	
Total amount of non-trade debt owed to third parties (i.e., banks):	\$10,245,474
Of amount above, how much must be paid within the next 12 months, exclusive of interest:	\$300,000
Average current interest rate:	Prime + 2% 8%
Debt as a percentage of assets (debt/assets):	195%

BALANCE SHEET INFORMATION (CURRENT INFORMATION)	
Total assets:	\$5,636,360
Intangible assets (Total):	\$339,361
Goodwill/going concern value:	\$
Subscriber lists:	\$
Acquired franchises:	(WAKEFIELD NH) >1000 SUBS \$218,048
Working capital (difference between current assets and current liabilities):	\$ (83,112)
Total liabilities (excluding third party debt):	\$762,687
Total equity:	\$5,371,801

HEADEND INFORMATION	
Average investment (cost) of a single headend facility (including real estate and buildings):	Do not own any real estate \$51,615
Total number of headends:	21
Annual cost of operating a single headend (listed below):	
Operating personnel:	\$39,531
Maintenance & repairs:	\$3,557
Utilities:	\$1,561
Total:	\$44,649



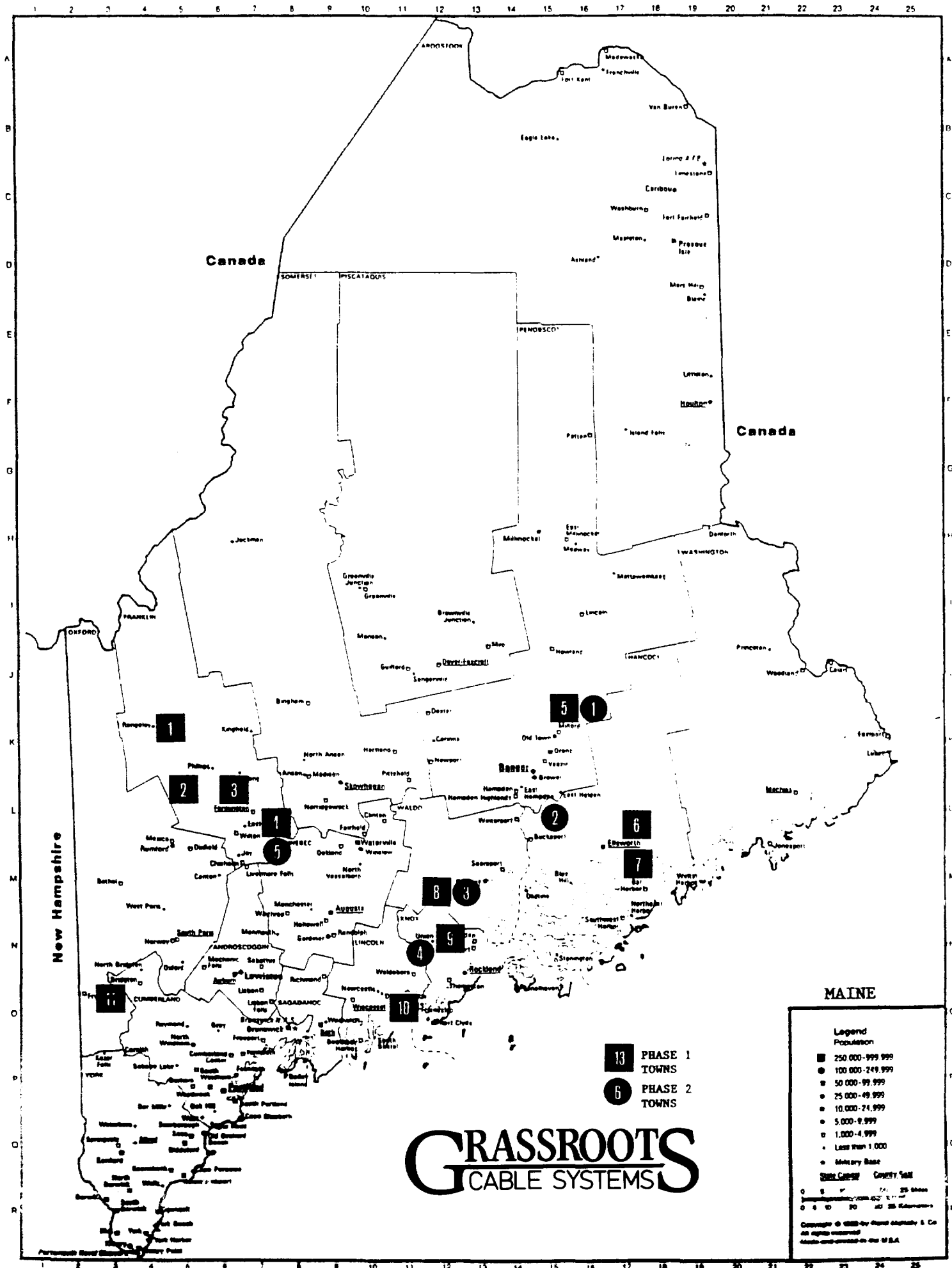
EQUIPMENT RATES	
Under the Benchmark Formula, what are your average monthly rates for:	
Nonaddressable converters:	\$ 1.65
Addressable converters:	\$ N/A
Remote controls:	\$ .30

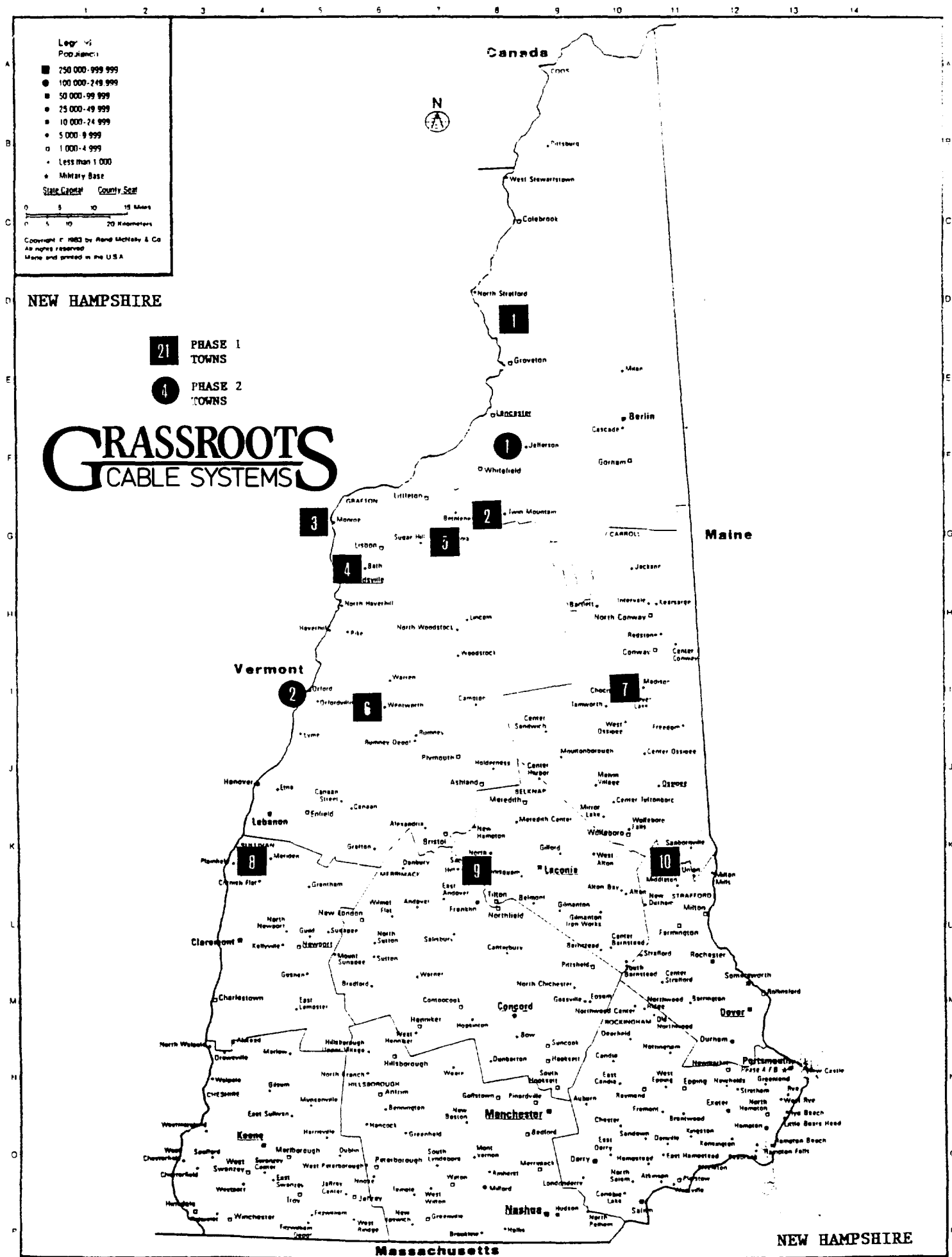
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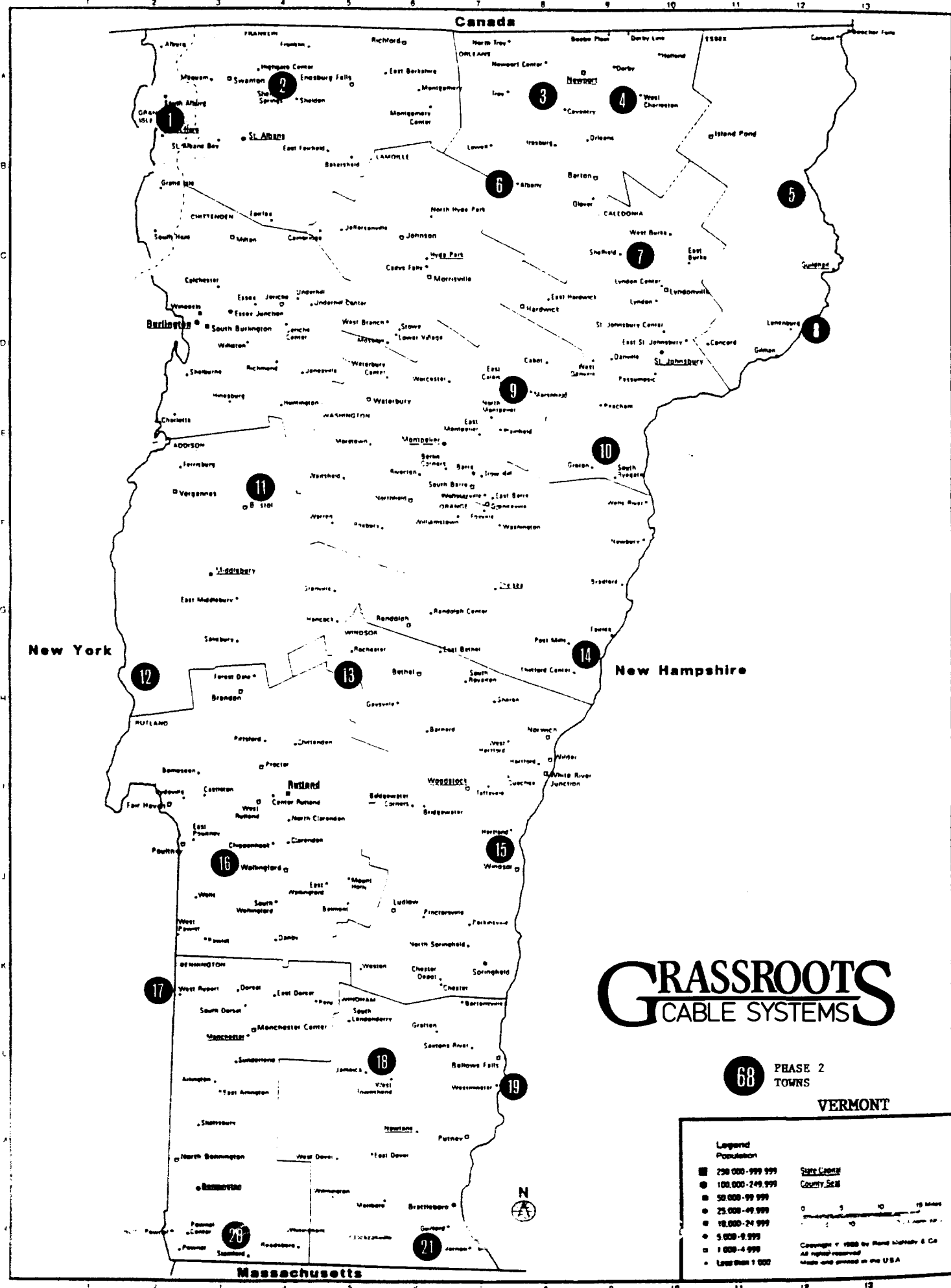
INCOME FROM CABLE OPERATORS			
For each of the last three years, what was your income from cable operations before and after taxes?			
	1993	1992	1991
Income before taxes:		(1,926,260)	(1,803,478)
Less income taxes:		N/A	N/A
Net income after taxes:		(1,926,260)	(1,803,478)
Average number of subscribers:		6189	5458

1990  
(1,532,822)  
N/A  
(1,532,822)  
4796

OPERATING EXPENSES	
What is your current annual average pole attachment rate per pole?	\$ 7.50
What is your current highest pole attachment rate per pole?	\$ 8.50
What is your current annual programming cost for tiered channels?	\$ 128,950
What is your current annual revenue from local ad insertions?	\$ N/A







Sen. John C. Danforth  
249 SROB  
Washington, DC, 20510-2502

Sen. Robert C. Smith  
332 SDOB  
Washington, DC, 20510-2903

Sen. Daniel K. Inouye  
722 SHOB  
Washington, DC, 20510-1102

Rep. Dick Swett 230 CHOB  
Washington, DC  
20515-2902,

Sen. William S. Cohen  
322 SHOB  
Washington, DC, 20510-1901

Rep. Bill Zeliff 224 CHOB  
Washington, DC  
20515-2901,

Sen. George J. Mitchell  
176 SROB  
Washington, DC, 20510-1902

Sen. Thomas H. Andrews  
1530 LHOB  
Washington, DC, 20515-1901

Rep. Olympia J. Snowe  
2268 RHOB  
Washington, DC, 20515-1902

Sen. Judd Gregg  
393 SROB  
Washington, DC, 20510-2904